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THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Retirement funds shift to address social and environmental challenges

Industry is well placed to help drive a shift to a green, low-carbon and inclusive economy in aiding recovery

Retirement funds have a powerful role to play as SA's economy seeks to rebuild to be stronger and more resilient after Covid-19. The pandemic has taken a heavy toll on lives and livelihoods worldwide. It has shone a light on gaps and vulnerabilities that were already emerging, such as those in healthcare systems, supply chains, business models and access to critical services, from education to the internet. If not addressed these gaps will only be widened by the effects of climate change and economic stress caused by the Covid-19. The pandemic has also provided an opportunity to reassess how economies and societies should be strengthened. The investment community, especially retirement funds and their asset managers, can make a big difference in the rebuilding process.

Representing more than R4-trillion in assets under management, SA's retirement industry is the world's fifth-largest pool of retirement capital and the largest investor in the JSE. It exerts significant influence on SA's market, and is well placed to help drive a shift to a green, low-carbon and socially inclusive economy, which can deliver sustainable returns in an increasingly uncertain future. The good news is that SA's retirement-savings sector, inspired by the Pension Fund Act, are steadily moving from passive to active investors, selecting investments that address the country's biggest social and environmental challenges.

Coal exposure

A 2020 study by the International Finance Corporation (IFC) and SA's Financial Sector Conduct Authority found that of 139 responding funds representing 74% of assets under management, 81% had already invested in renewable energy, allocating about R40bn to the sector. An overwhelming 82% said they would like to increase allocations to green and climate-focused investments, and 94% expressed interest in growing their portfolio to include investments with positive social impacts. About half said they were open to decreasing their exposure to coal. This is a good start, and reflects an evolving mindset among fund managers to focus on impact as well as returns.

But the study also identified hurdles holding back this ambition to invest in social and sustainable projects and businesses such as lack of investment opportunities in SA that meet governance requirements and investments that are big enough, with enough liquidity. The survey also highlighted the need to build the capacity of the investment community so they can better integrate environmental and social strategies into their overall investment plans. So how can we help funds align their investments with their ambitions? The recently updated Responsible Investment and Active Ownership (RIO) guide, an online guide for SA's retirement sector, provides step-by-step insights and resources for a retirement fund to do this effectively. The guide, produced by the Batseta Council of Retirement Funds of SA with funding from the Swiss state secretariat for economic affairs and support from the IFC, lists critical steps retirement funds can take, including:

- Developing an investment policy that sets out their commitment to environmental, social & governance risk management and proactive green investment strategies.
- Selecting partners that share a goal of increasing support to environmental and social development, and monitoring investments and their impact.
- Signing up to initiatives such as the UN-supported Principles for Responsible Investment and the Code for Responsible Investment SA.

The IFC estimates there is a $588bn investment opportunity in climate mitigation across selected sectors in SA up to 2030. This does not include investments needed to support climate change adaptation and resilience, which represent additional untapped green investment potential. These investments can include supporting small businesses, investing in sustainable building projects, enabling access to healthcare and education, and backing women entrepreneurs and other start-ups. Now is the time for institutional investors to take the lead on sustainable finance and set clear strategies and goals for sustainable investing to turn this opportunity into a reality. As our economies rebuild in response to the Covid-19 pandemic, collective ambition and commitment by SA's retirement funds can do much to prepare us for what lies ahead.

Business Day | 6 July 2021

How trustees can help to improve retirement outcomes for members

Investment performance, governance and communication are the key challenges trustees face in their efforts to ensure members of retirement funds get what they need from retirement. This is according to Richard Carter, trustee of the Allan Gray retirement funds, while moderating the "Governance and regulation" panel at the inaugural Allan Gray Retirement Benefits Conference. The panellists noted that communication is often too complex, and members don't understand the steps they need to take in the run up to retirement to make sure they have enough. Employers and trustees need to do more to help members to engage with the end picture, and what is a likely scenario for retirement, to enable them to prioritise their retirement savings, or to think about supplementing their savings outside of their retirement funds.

"People often only wake up when it is too late to change the picture," said Ayanda Gaqa, head of risk and compliance at the Eskom Pension and Provident Fund, noting that technology can help members engage with projections and understand the bigger picture. "A simple rule of thumb is that you need 14 to 16 times your annual salary at 65; you don't need a complicated actuarial formula. If members have this at the back of their mind, they'll realise they need to have a plan from the time they start earning," noted Jonathan Mort, founder of Jonathan Mort Inc, adding that trustees can help with reinforcing this message, but it shouldn't only be their responsibility. Employers can also play a role in helping employees get a sense of what is enough.

The importance of sound trustee oversight really comes to the fore in crucial matters like selecting the right investment managers and other service providers. The track records of the administrator and the investment managers matter. Trustees must take these into account when they make their appointments and must make sure that their decisions are sound, fair and transparent and focused on the long term. Trustees then need to monitor how the service providers are performing on an ongoing basis: many things can go wrong. When it comes to investment performance, what ultimately matters to members is having as much money as possible at the end.

But sustainability in investing is becoming increasingly important and environmental, social and governance factors need to be considered. Trustees must manage the trade-off of risk-adjusted returns versus the impact of those investments. "Returns are crucial because these are retirement savings; but it is no good achieving returns at the expense of terrible labour practices or living in a ruined environment," said Mort. Gaqa agreed, noting that these issues have become a reality and there is a need to focus on long-term sustainability. However, according to Muvhango Lukhaimane, the Pension Funds Adjudicator, this must be managed

within the boundaries of a fund's investment policy. "A fund can't take members' money and not deliver; it must deliver the agreed return," she stressed. Another issue is infrastructure investing and proposed changes to Regulation 28 of the Pension Funds Act. According to Mort, infrastructure projects give funds the ability to invest locally and benefit the local community, but Gaqa emphasised that, again, the member has to be put at the centre of the investment decision. "Is the investment going to benefit the member and is it in line with the fund's investment policy?

On a risk-adjusted basis, is the investment worth considering?"The panellists all agreed that governance of the projects must be sound and there must be confidence in the valuation methodology. This applies to all investment decisions. "At the end of the day, trustees need to be focused on improving outcomes for members. Only 6% of South Africans can afford to retire. We need to develop a culture of saving and encourage people to save. This is a challenge for the entire industry," concluded Carter.

FA News | 6 July 2021

Evaluating umbrella funds

At the recent inaugural Allan Gray Retirement Benefits Conference, Andile Khumalo, founder of KhumaloCo, hosted a panel discussion via Zoom webinar to explore the elements that consultants, advisers and employers should consider when looking to join an umbrella fund. Hazel Hopkins, senior partner at Axiomatic Consultants, Vusi Maswili, director at ASI Financial Services, and Adv. Christi Franken, business development executive at Efficient Benefit Consulting, shared the factors they think are most important when evaluating umbrella funds.

The number of umbrella funds available, as well as the assets under management in umbrella funds, has grown significantly over the last five years as smaller standalone funds seek to manage costs and administration procedures more efficiently, according to a recent Financial Sector Conduct Authority (FSCA) report. Employers who decide to transition from a standalone arrangement to an umbrella fund are tasked with choosing retirement fund solutions that lead to the best outcomes for their employees. This can prove challenging, as the available service offerings vary considerably.

Understand the governance of the fund

Each umbrella fund is governed by a board of trustees tasked with performing an oversight function and making decisions that ensure the best possible outcomes for members. Hazel Hopkins, senior partner at Axiomatic Consultants, advises employers to examine the structures

of these boards, paying careful attention to the balance between sponsor-appointed trustees and independent trustees, and to ascertain whether members have any input when it comes to appointing trustees. "I believe we should be looking at ways in which we can include members in some of those choices," she says. Adv. Christi Franken, business development executive at Efficient Benefit Consulting, agrees and says it is important to identify any conflicts of interest that the trustees may have – particularly when dealing with "one-stop shops", as trustees should be able to make unfettered decisions. Vusi Maswili, director at ASI Financial Services, says that in addition to testing the credibility of trustees, one should examine the annual financial statements and reports, explore the fund's track record, find out how many complaints have been lodged against the fund and whether there have been any non-compliance issues. This can help paint a picture of how well a fund is managed.

Unpack the costs

When weighing up quotations from various providers, one needs to ensure that they are comparing apples with apples. "Cost is a trigger for value assessment", says Maswili, noting that it shouldn't be the sole consideration when evaluating umbrella funds. He says that providers may present a variety of cost structures: Your quotation could come as a percentage of salary, a percentage of assets under management, a fixed cost per member per month or a blend. These structures will vary based on the underlying benefits offered by each fund. This can make it difficult to compare funds. "It is the reason why ASISA moved to implement the Retirement Saving Cost (RSC) Disclosure Standard – to simplify and standardise cost comparison."

Although she thinks that the RSC disclosures are a good start, Hopkins cautions that these disclosures are often based on averages over three years and do not represent the actual costs that members may experience. "Until we get to member-level upfront reporting, we're not going to have full transparency on cost. There are many hidden costs that are often covered by a governance levy." Franken echoes these concerns and says that the RSC disclosures are a great tool in evaluating fees across providers but should be considered in conjunction with other fees not included in the calculation, such as risk charges and in-fund preservation, where applicable.

Seek independent advice and flexibility

In addition to aiding employers in choosing an appropriate umbrella fund solution and unpacking governance issues and costs, Maswili says that independent intermediaries can play an ongoing role. Intermediaries can help hold service providers to account, support trustees to ensure that members receive adequate communication and make sure that member interests are better served. It is also useful to offer members access to independent financial advice, particularly as they approach retirement age.

As umbrella retirement funds have evolved, many are being bundled with additional benefits, such as employee assistance and healthcare schemes. Hopkins warns employers that bundling all your services with one provider can make it increasingly difficult to extricate yourself if you are no longer happy with your service provider. She suggests looking for solutions that allow employers access to independent investment and benefit advisory services and offer greater choice around risk management providers.

FA News | 7 July 2021

Retiring because of retrenchment? Beware the risks!

There are several reasons why retrenchment can severely affect your ability to retire well.

In our book, *The Ultimate Guide to Retirement in South Africa*, we list retrenchment or early retirement as one of the top 10 risks facing a comfortable retirement. There are several reasons why retrenchment can severely affect your ability to retire well. These include purely financial considerations, but also the risks that come from the psychological impact of an unexpected end to your career. The most obvious risk is of course the loss of additional years of saving. As you save for retirement, your savings compound, and each year's growth is made up of both your monthly contribution and the growth that you earned through investment and through receiving dividends. Albert Einstein purportedly called compound growth "the eighth wonder of the world" and you can see why when you watch your retirement savings grow.

It is important to remember that compounding means that your savings build momentum, and it will grow a lot more in the last few years before retirement than in the first few years of work. An early retirement puts this growth at risk because you may have to stop your monthly contribution, but you may also be tempted – or perhaps even forced owing to circumstances – to withdraw some of your funds early, which means that fewer savings remain in your retirement pool. Another, sometimes overlooked, retirement risk stemming from early retrenchment is the loss of your tax benefit. My co-author, Bruce Cameron, and I discuss this at length in our book, but in short, the money invested in your pension grows, not only by the rate at which it is invested, but also by the amount of tax you save.

The tax saving on a pension fund contribution is really the best possible way to build wealth because you not only save that tax, but your entire annual taxable earnings decrease by the amount of money that you invest in your retirement savings. This means that you are likely paying less tax on everything you earn. Another risk that we highlight in our book is the extra years you add to your life as a pensioner. If you decide to end your working life when you are

retrenched, and you are over 55, you can buy a pension product with your retirement savings and start living off it. Statistics have shown that people live much longer than before, which means that you will require that your pension must sustain you for much longer, while, as we discussed above, your pension is also less than it would have been had you contributed up to your official retirement age of 65 or older. Lastly, we discuss the risk of buying a pension at a younger age. Many people opt for a guaranteed pension as part of their retirement plan. While a guaranteed pension looks like a retirement product, it is in fact an insurance product, which means that the cost is calculated on your expected lifespan. Buying a guaranteed retirement product becomes more expensive when you buy it at a younger age. In fact, the younger you are, the more expensive it will become. This also has the risk of depleting your retirement savings.

Moneyweb | 2 July 2021

Insist on pre-retirement counselling

But also seek out independent advice.

On 1 March 2019, at the start of the new tax year, National Treasury introduced a number of new rules and regulations for retirement funds. One of the new rules states that retirement fund members should receive retirement benefit counselling before they retire. This should happen at least three months before retirement, although the Financial Sector Conduct Authority (FSCA) suggests counselling five years as well as one year prior as well. It is important to keep in mind that the counselling should be provided by your retirement fund, the fund's administrator or a specialist appointed by the retirement fund and that it should be done free of charge to you as the member. This counselling is by no means financial advice and it should never be used to coerce you into buying a retirement product.

What the counselling should do, is at least give you a better understanding of the fund's performance in the last year. The counselling should also touch on the availability of a default option if you are unsure of what to do. The so-called default option is another of the new rules introduced for retirement funds. In short, it says that each fund should have a standard option that is available to you if you cannot decide on how to invest your retirement funds. There are specific rules for default options, including that it should not cost too much and that you should still opt for it in writing, even if it is called a default option. Many default options comply with Regulation 28 which limits offshore exposure to 30% and equity exposure to 75%. These limits could limit the growth potential of your retirement portfolio. From our experience, many people on the cusp of retirement think their retirement is taken care of thanks to the pre-retirement

counselling and the default option. Unfortunately, as is the case with so many “default” options, these regulations cannot cater to each person’s specific financial and life needs. This means that you are probably not getting the best possible retirement benefits if you pick the default option. At the same time, we have found that much of the pre-retirement counselling that is available to people who are preparing to retire is very generic and simple.

This is not because the counsellor is lazy or malicious, but they are required to provide generic counselling that can be given to blue- and white-collar workers alike, and that this does not constitute financial advice. With this in mind, we always advise people on the cusp of retiring to seek out professional and independent financial advice and to do so well in advance of retirement. A CERTIFIED FINANCIAL PLANNER (CFP) accredited independent financial adviser will not only be able to provide you with personal financial advice, but can give you greater access to different retirement products and options and will help you make a better decision for the short and long term.

Moneyweb | 2 July 2021

Provident fund rapped for placing sisters' benefits in a beneficiary fund

In a recent determination involving the Old Mutual Superfund Provident Fund, the Pension Funds Adjudicator, Muvhango Lukhaimane, expressed her dissatisfaction with a decision by the fund to make payment of a death benefit allocated to adult beneficiaries to the Fairheads Independent Beneficiary Fund. The beneficiaries, aged 20, complained to the Adjudicator that they were dissatisfied with the decision by the fund to place their benefits in a beneficiary fund until they attain the age of 23. They submitted that they did not authorise the payment of the benefits to the beneficiary fund and they were not afforded an opportunity to appeal the board’s decision to place same in the beneficiary fund. They were also aggrieved that the beneficiary fund deducts fees every month to manage the benefits on their behalf.

Old Mutual Superfund Provident Fund was the first respondent in the matter with Fairheads Independent Beneficiary Fund as second respondent and Old Mutual Life Assurance Company as third respondent. The beneficiaries stated that they have been engaging the beneficiary fund, collectively with their father, for the termination of the member account held therein. They stated that the income they receive from the beneficiary fund only covers their rental expenses and is not sufficient to meet their daily living expenses. They stated that they are aggrieved that the fund and the beneficiary fund view them as unqualified to manage lumpsum benefits.

In response, the fund stated that it had received a complaint through the FAIS Ombud lodged by the beneficiaries' older brother who stated inter alia that the beneficiaries intended to squander their benefits on luxury items such as cars and overseas holidays. He stated that they were not mature enough to handle their own financial affairs. A special condition was attached to the payment to the beneficiary fund which stipulated that neither the beneficiaries nor their father were allowed to withdraw their capital until the beneficiaries completed their schooling or reach the age of 23. The reason for the condition was mainly due to the fact that the beneficiaries were not deemed mature enough to handle their own financial affairs.

After taking into consideration their financial and living circumstances, the board exercised its discretion and concluded that the beneficiaries would not be able to manage their benefit payments appropriately. Since the beneficiaries have not completed their schooling but have expressed a desire to complete their schooling, the board deemed it appropriate to transfer their benefits to the second respondent until they completed their schooling or attained the age of 23. The fund also submitted that the beneficiaries' father informed the fund that in March 2019, the complainants signed a lease to reside in a cottage on his property and they were in arrears for the amount of R142 000 which needed to be paid. Failure to pay the arrear amount will result in summons being issued.

The beneficiaries would then seek legal advice in order to serve summons on the beneficiary fund. He further stated that the beneficiaries completed their schooling (grade 10) and that it was not up to the fund and the beneficiary fund to pronounce on whether or not they have completed their schooling. The beneficiaries' father stated that the beneficiaries completed grade 10, like him who runs a successful business. The beneficiary fund stated it received correspondence from the father stating: "I would like for you to ignore their request for paying their outstanding R120 000 rental that is owed. They signed a contract with me that they will pay me 10% interest per month on outstanding money owed to me which amounts to R12 000 per month. There are 28 months left before they receive their trust so the interest will be R336 000 excluding the R120 000.

"I will never get revenue like that from any financial institution, so I am happy to wait! I also informed them that they cannot go for any courses or studies until they receive their pay out because I don't think there will be much left after they pay me their R446 000." The beneficiary fund submitted that in their investigations and dealings with the complainants, they confirmed telephonically that they do want their fund credit terminated and paid to them and that they intend enrolling in a yachting course and obtaining their learner's license. It stated that the complainants are currently unemployed, have never managed lumpsum payments and have not completed high school, it is for these reasons that it agrees with the fund that the complainants would not be able to properly manage their fund credit if paid to them as a

lumpsum now. It stated that the requirements for termination have not been met. The beneficiary fund further stated that it currently pays the complainant's a monthly income which covers their rent (which they have indicated is paid to their father) and other basic requirements including clothing, toiletries, living and expenses. Should the complainants further their studies, same will be paid from their fund credit held by the beneficiary fund. In her determination, Ms Lukhaimane set aside the decision of the fund and ordered it to properly investigate the complainants' ability to administer their financial affairs and thereafter decide on an appropriate mode for payment.

The Adjudicator was concerned that the fund simply relied on submissions received from one individual and failed to conduct further interviews with independent individuals to corroborate the brother's submissions. She found that the board failed to carry out its own independent investigations that would probe the complainants' living circumstances and assess their ability to manage lumpsum benefits. The Adjudicator stated that there is no evidence to suggest that the complainants were mentally incapacitated nor had a curator appointed to administer their financial affairs. Further, where a major dependent's benefit allocation will not be paid in a lump sum, written prior consent must be given. Thus, the board failed to exercise its discretion properly.

FA News | 5 July 2021

Here are a few reasons why retirement planning is not a once-off event

As a wealth manager, I have observed that there are two typical clients. Some dread retirement, while others look forward to it. Those who dread it are the ones who are often not sure if they have made sufficient provision for comfortable post-employment life. Those who are looking forward to it are those who are confident of their retirement plans and are looking forward to not living the nine-to-five rat race. Regardless of which type of client you are, I have come to realise that people often make the following mistakes when planning for retirement: They fail to continue to monitor whether their retirement plan is still relevant and on track. Retirement planning is not a once-off event. It should be considered and monitored regularly, at least once a year. I find it helps to show my clients how that plan has evolved, to see if their drawings and their capital (investment) has grown or underperformed.

The second mistake is the overestimation of the value of downsizing one's house at retirement. Many believe their current house is worth a large sum of money, and when they retire, they will sell it and use the proceeds to supplement their income. This is not unreasonable, but I find

people often overestimate the future value of their house and do not consider the setup costs of a new home. This is especially true when moving into a security complex where the property prices are higher and there are additional fees to pay, such as levies. There is often a disconnect between what people want for their retirement and what the reality will be. Retirees tend to have considerably more time on their hands with a need to fill it with leisure activities. There are, however, costs involved with this, and lifestyle discussions must be done right at the beginning of your planning stage to allow for this.

Another easily avoidable mistake is failing to assess your financial needs after you retire. It would be best if you continue to monitor your drawdowns. Budgeting remains a crucial ingredient of a successful retirement. You must ensure that there is more coming in than what is going out every month. Generally, the aim is to retire with enough money to provide you with a monthly income equal to 75% of the final salary you earn. The Covid-19 pandemic, stock market volatility, job losses and political uncertainties have many clients concerned about their retirement provision. I have instances where professional clients are considering pushing out their retirement date, and although this is prudent, one must consider that events are ever-changing. Nothing is ever cast in stone, and that is why continuous conversations are so important. This is especially important because people are generally living longer with a better understanding of healthy living and eating, and the importance of exercise is a high priority in households. Also, we have access to better healthcare.

So, to avoid uncertainty or being presumptive, consider the following:

- Review your portfolio, retirement and discretionary investments, on an annual basis.
- Clients nearing retirement should consider a gradual reduction of risk on their overall portfolio. Taking income from the portfolio will mean that a massive correction on, for instance, the stock exchange could put immense detrimental pressure on their anticipated income.
- Clients in retirement, who have experienced a decline in their portfolios and are concerned, should consider how much income they need in the next year and maybe try and limit the drawing for a while – at least until asset values recover. But then it is also imperative to make the adjustment and reduce the overall risk so that the event does not repeat itself.
- Clients with discretionary investments could consider spreading risk with different investment vehicles, such as offshore exposure, local equity exposure, or property, but one should always consider the overall risk capacity.
- Tax and tax reduction should also be one of the primary considerations, both while saving and when in retirement. A good spread of discretionary and compulsory investments is generally seeking a good mix because you get to use all the benefits that SARS offers in the form of rebates and lower tax structures found in capital gains,

interest, and dividends. Tax should always be considered on an individual basis as there is no one size fits all.

Do not react in emotion. Speak to your financial adviser or wealth manager.
Our job is to remove the emotions that come with periods of massive growth or recessions. We offer a well-balanced and unbiased opinion on stock market fluctuations, countering the sensational strategies of flash articles in the media. The calm investor that stays the course will be rewarded over the long term.

ABS – Always Be Saving!
Retirement planning is a multistep process that evolves over time. Being financially ready for retirement is the cornerstone, but my conversations with clients also include their hopes, fears, dreams, goals and aspirations. How they will fill their nine-to-five. What will give them meaning and purpose?

Personal Finance | 1 July 2021

INTERNATIONAL NEWS

The pension triple-lock is an insult to the UK's young people

While Boris Johnson panders to older voters, younger generation's prospects are bleaker than ever

Here's a tale of two generations, the pensioners and young workers. As the pandemic furlough winds down this week, one generation is destined for a mighty windfall from the government while the other gets nothing. The reason is clear: the Tories win three times more votes from one group than the other. As of this week, employers start picking up the furlough bill, previously paid by the government, and many will let staff go, with their businesses still running on empty. Most of those losing jobs will be young people in the low-paid hospitality, arts, entertainment and tourism sectors, who, warns the Resolution Foundation, will struggle to find work: reports of worker shortages "have been overplayed", and so have reports of steep pay rises. But those artificial pay-rise figures are about to deliver a bonanza for pensioners.

We can expect a fight between prime minister and chancellor: that age-old strife between a voter-pleasing big spender in No 10 and a fiscal rectitude-obsessed penny-pincher next door. With every minister pressing for funds in the autumn spending review, the question of uprating the pension is primal: every Tory MP was elected on a manifesto pledge to keep the pension

triple lock in perpetuity. Butowing to a statistical accident, the chancellor finds it an exceptionally expensive promise. The pledge is to uprate pensions by consumer price inflation, by 2.5%, or by the rise in average earnings – whichever is the highest. But by a freak of the pandemic, wages appear to have risen by 5.6%, and later this month some economists predict a rise to 8%.

Don't imagine ordinary earners have really received this rise: the measure compares artificially low pay at the height of the first wave, when about 10 million furloughed workers lost 20% of their pay, with now. Low earners losing their jobs altogether takes them out of the figures, making the average rise look artificially high. Torsten Bell of the Resolution Foundation explains it like this: in a couple where one earns, say, £10,000 and the other £30,000, if the low earner loses their job, the couple's average pay rises – because one drops out of the pay calculation altogether. He suggests the underlying rate is really just over 2%. To keep the triple lock will cost at least a walloping £4bn, yet again tilting state support towards all pensioners – regardless of their wealth – and away from working families and children.

Ever since the triple lock was instituted, pensioners have gained, while a decade of benefit cuts has taken at least £37bn away from families. Yet when earnings growth was negligible last year pensioners still got their 2.5% increase, and now this injustice between generations may be exacerbated even further. The UK's 12 million pensioners are already the group least likely to be poor, a historic transformation achieved under Labour, when a million were lifted above the poverty threshold. The blessed baby boomer generation has never-to-be-repeated private pensions, and colossal untaxed wealth in the value of homes bought cheaply, the value of which has risen by over 300% in the last three decades. Three-quarters of pensioners are homeowners.

But there are some very poor pensioners, the oldest tending to be poorest, 2.1m of whom urgently need support. Labour introduced pension credit to top up pensions of those with virtually no other income. But here's the scandal: nearly a million are not claiming an already too-low pension credit, losing on average £32 a week. Two hundred thousand pensioner households fail to claim an average £62 in housing benefit. Older single women, who have the lowest pensions, are owed most. Many miss out not through pride, but because they don't know their rights or need help to claim, so more than £2bn sits in the Treasury unclaimed every year. Since everyone gets their basic state pension, the Department for Work and Pensions knows exactly where these non-claiming poor pensioners are and should be commissioning councils, Age UK and Citizens Advice to contact every one of them.

It's an amusing irony that, now the over-75s are starting to have to pay for their TV licences – unless they draw pension credit – an avalanche of new pension credit claims is expected,

which may end up costing the government a fat slice of the money it cut from the BBC. The government needs to give poor pensioners increased pension credit, then abandon the triple lock. Also people of working age shouldn't pay for the awaited new social care system, which must come from the property wealth of the old themselves. Nor should the chancellor try to balance his debts on the backs of the young, who have the least. "Levelling up" should mean fairness between the generations too, so give a high priority to restoring the billions denied to schools to catch up on academic time lost during the pandemic, and for their lost arts and sports.

The Resolution Foundation describes how the jobs and careers landscape for the young is causing a mental health crisis, all as their chances of buying a home are receding. Bell says the UK has far greater wealth than any EU country, though it sits there in bricks and mortar, out of reach for most young people. Despite recent talk of too many graduates, in the UK just 50% of the population has a degree, compared with an OECD average of 70%. That's according to Prof Bobby Duffy's forthcoming book, Generations: Does When You're Born Shape Who You Are? But his research shows how forgiving the young are too.

They don't blame the old for stealing their future. "They don't want to mug Grandma," according to Duffy. People live in families, not in generational isolation; and they're well aware that they will grow old too. There's no reason to play off the needs of the young against the old. But if Boris Johnson insists on bribing voters by keeping the pension triple lock this year when it makes no sense, then the young should also get many multiples of that – if his much vaunted "levelling up" is to mean anything at all.

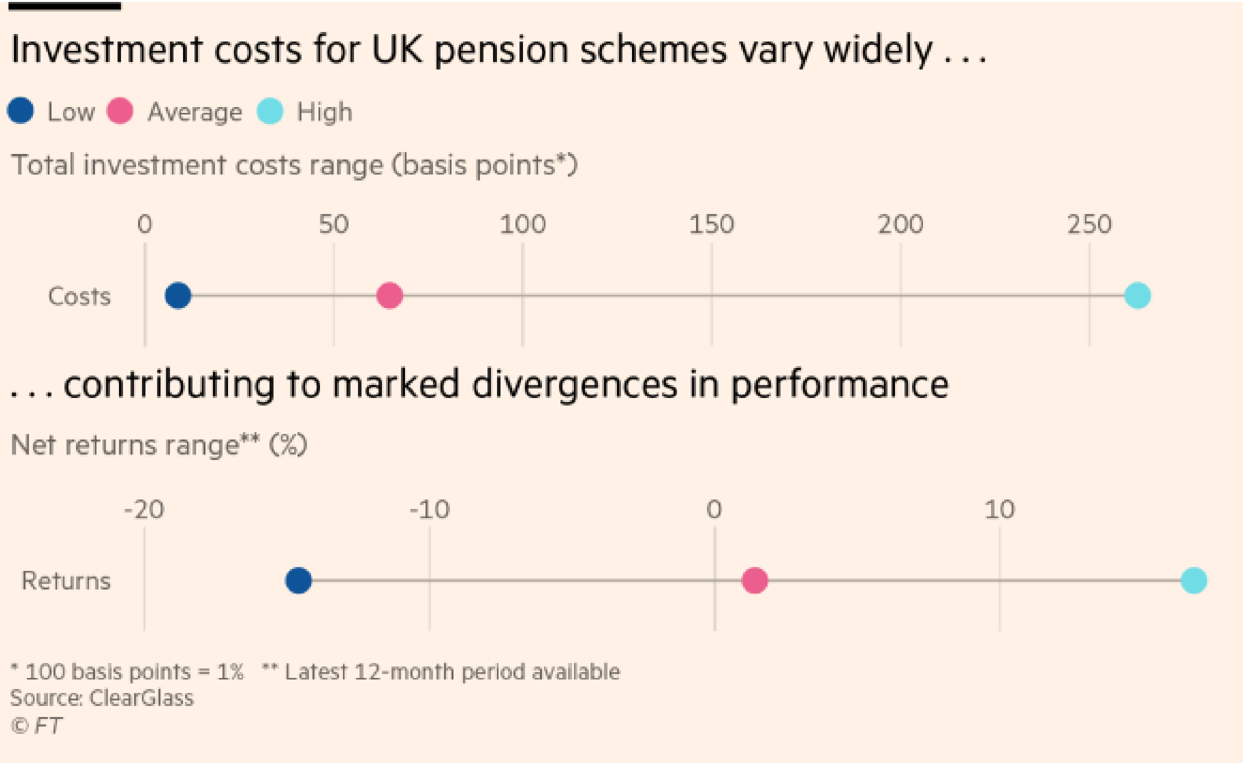
The Guardian | 15 January 2021

UK pension schemes waste billions on underperforming asset managers, study finds

Weak value for money provided by investment companies, claims specialist data provider

UK pension schemes are wasting billions of pounds each year paying fees to underperforming asset managers, according to a study that highlights the weak value for money delivered to retirement savers. Asset managers in the UK have been required to make detailed disclosures about their fees and charges since 2019 after the Financial Conduct Authority, the City regulator, found that poor data transparency standards were preventing institutional investors from making accurate value for money comparisons. Wide variations in the costs and

performance of 11,500 funds and mandates sold by 420 asset managers to defined benefit pension schemes were identified by ClearGlass, a specialist data provider. Chris Sier, founder and chief executive of ClearGlass, said cost savings of about £6bn a year could be achieved if UK defined benefit pension schemes halved the total fees of 0.65 per cent paid on average each year to asset managers. “The scope for improvement is significant,” said Sier, a former policeman who was hired as an unpaid adviser with a brief to strengthen disclosure standards by the FCA in 2017. UK DB pension schemes look after about £1.7tn in assets on behalf of 9.9m members, according to the Pension Protection Fund, the lifeboat for collapsed retirement schemes. The total cost of buying asset management services for DB pension schemes varied between just 0.09 per cent a year up to 2.63 per cent, Clear Glass found.



The smallest pension schemes with less than £100m in assets paid the widest range of fees but delivered weaker returns on average than their larger peers. Smaller pension schemes also provided a wider range of performance outcomes. “The risk of a worse outcome is much greater for smaller pension schemes. They can’t afford to hire investment consultants to provide advice and they don’t have good governance compared with larger pension schemes,” said Sier. A defined benefit pension scheme could save 0.61 percentage points a year by switching from a diversified growth manager ranked in the bottom quartile for costs to a rival in the top quartile, while also achieving a marked improvement in returns. This would translate into an annual saving of £613,000 for a £100m diversified

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Asset managers in the UK have been required to publish yearly value for money reports since 2019 following years of complaints by investors about high fees and poor returns. But the reports have triggered concerns that investment companies are "marking their own homework" in an effort to portray themselves in a flattering light. Just 15 asset managers of the 420 analysed by ClearGlass provided any funds or mandates with a combination of best in class returns and fees with both measures in the top quartile, according to ClearGlass. BlackRock was ranked in the top quartile for both costs and performance in four of the 22 fund categories, analysed by ClearGlass.

Legal & General Investment Management appeared in the top quartile for costs and performance in three fund categories. ClearGlass intends to broaden the analysis to include costs and performance for hedge funds, private equity and infrastructure and to roll out the service to pension schemes in Europe. Iain Clacher, professor of pensions and finance at Leeds university, said the creation of common disclosure standards for investment costs was a "game-changer" that would empower better decision making by pension schemes. "Achieving cost savings can translate into performance improvements for DB pension schemes. This can result in lower financial contributions for employers and employees, greater security for the pension scheme and better outcomes for members," said Clacher.

Financial Times | 15 January 2021

OUT OF INTEREST NEWS

How to be a better saver

Like many things, saving is something that gets better with practice.

With July being National Savings Month, South Africa's generally poor savings culture is once again in the spotlight. Like many things, saving is something that gets better with practice. The more often you do it, the easier it becomes – and the greater the reward. In many instances, getting started is the greatest obstacle – and it's the delay in taking that the first step that trips many people up. The cost of living is expensive and it's easy to make the excuse that you don't earn enough to start saving. Finding excuses will, however, only serve to postpone your savings journey, so set aside the excuses and commit now to becoming a better saver. Here how:

Identify goals that motivate you

Retirement as a goal is often way too far into the future to motivate anyone to start saving. Instead, consider short- and medium-term goals that excite you and which will encourage you to start saving. Set realistic and achievable goals that are aligned with your lifestyle goals and passions, and start visualising what it would be like to achieve them.

Start small, but start now

Not many people have any wiggle room in their budgets. Don't fall into the trap of believing you must start saving 10% or 15% of your income. For many people, this is completely unrealistic, especially under current economic circumstances. Don't be ashamed to start saving a small amount every month as you can always increase this amount as and when your budget allows. Commit to an amount that you know you can currently afford and just get started.

Live within your means

It's not what you earn that matters. You can only grow your wealth by spending less than you earn and consistently saving the rest. You cannot begin to save until you are living within your means, and the first step in achieving this is preparing a budget. It is generally easier to reduce your spending than it is to increase your income.

Draw up a valued-based budget

Draw up a budget that reflects your values and what is important to you. A values-based budget starts with determining your goals and priorities and then aligning your spending to

match. For instance, if wearing branded clothing is not important to you, don't make provision in your budget to buy overly expensive clothing because you feel pressured to 'keep up with the Joneses'. If travel is important to you and you're prepared to drive a smaller, less expensive car in order to be able to afford to travel, let your budget reflect that – and don't feel pressured into buying more car than you need in order to meet expectations that others may have of you.

Be prepared to make sacrifices

Ensuring that you can live within your means will no doubt entail making sacrifices, so mentally prepare yourself for the possibility that you may need to make lifestyle changes in order to achieve your savings goals. Identify those areas of expenditure where you know you can cut back on – a process that may require you to think carefully about whether some 'needs' aren't in fact 'wants'.

Differentiate between spending and borrowing

Learn to understand the difference between spending your own money and borrowing from someone else to finance a purchase. For instance, if you buy a JBL speaker on credit, you are borrowing from a financial institution so that you can enjoy the use of the JBL speaker now. You will not fully own the JBL speaker until you have paid off the loan with the credit provider, with interest.

Pay off debt aggressively

Debt is a mantel that can burden you daily. Being overly indebted can be a dark place to be and a difficult place from which to escape. While you're servicing expensive debt, such as credit card and retail debt, it is difficult to save because the interest you're paying on your debt generally erodes any gains you are making on the other side.

Include a savings category into your budget

Paying off debt will allow you to redirect your debt re-payments towards building up your savings. Whatever amount you feel you can allocate towards your savings, be sure to record it as a line item in your monthly budget. 'Paying yourself first' means making sure that, after your basic living expenses have been covered, your savings are prioritised and not negotiable.

Use the right savings vehicles

If you've committed to regular saving, the next step is to ensure that your savings vehicle is fit for purpose. There is a multitude of savings vehicles from which to choose, all with different tax consequences, notice periods and regulations, and it is important to ensure that the savings vehicle aligns with your goals. For instance, a tax-free savings account may be an excellent vehicle to save for your child's tertiary education, but would not necessarily be appropriate to house money intended to be used for your annual vacation.

Automate your savings

Once you've set your goals, allocated your savings and identified the most appropriate savings vehicles, automate your savings so that the money moves seamlessly from your bank account into your respective savings accounts. This will reduce the temptation of intercepting the money for other purposes, and will ensure that regular saving becomes a habit.

Record your expenses and track your spending

Tracking your expenditure and knowing exactly where your money goes is a surprisingly empowering exercise. Take time to go through your bank statement and make sure you can account for every cent you have spent. Be sure to identify costs such as parking, tips, auto-renewable subscriptions, on-the-go coffee and food takeaways which, on their own might appear benign, but cumulatively can be substantial in terms of your overall spend.

Use a cooling off method

When it comes to managing your expenditure, practice the art of delayed gratification by using a 'cooling off' period before making a purchase. If you're contemplating buying something that is a 'want', commit to waiting a week – or whatever 'cooling off' period you believe will work for you. Often, just putting space and time between a desire to purchase and the act of purchasing can re-set your thinking and help you to re-prioritise your thoughts.

Build rewards and fun money into your budget

Spending money for pleasure is not wrong. In fact, one of the reasons we work hard is to ensure that we can use some of the money to pursue hobbies and activities that make us happy and make life meaningful. If you've developed a values-based budget, setting aside money for your hobbies and passions should be reflected in your budget – ensuring that you can pursue your interests guilt-free while at the same time ensuring that you stay within your spending limits.

Use an app that works for you

There are a number of excellent apps available that can help you track your expenditure, develop a budget, allocate your expenditure to align with your goals, map your expenses against your budget, and help you to save and invest. Apps such as 22seven, Moneysmart, MyMoney, MyFinancialLife, Mind, Good Budget and Chip are all excellent and are either free of charge or come at a nominal monthly fee.

Learn how to cook

If you regularly spend money eating out or buying takeaways, it is possible to become de-sensitised to just how expensive eating out can be. Many people also justify eating out or buying takeaways as a necessary expense on the basis that they don't have time to cook or

prepare a meal. Shopping for groceries online has never been easier, with most retailers offering a same-day or within the hour delivery service, making last-minute meal preparation so much easier. The cost difference between using leftover supper to make a chicken and mayonnaise sandwich for work versus paying R40 for a ready-made sandwich is significant, especially if multiplied daily over the course of each working week.

Work with your partner

If you've committed to a savings journey, ensure that you bring your partner or spouse alongside so that you can work together as a team. It's extremely difficult to build wealth if both of you aren't working towards the same set of goals, and with the same level of commitment. Creating wealth together will necessitate mutual sacrifice, communication and respect for each other's goals.

Moneyweb | 1 July 2021

How to choose the most appropriate savings vehicle for your needs

A look at seven vehicles you can use to house your savings, how to use them effectively.

With it being National Savings Months, this article takes a closer look at seven vehicles which can be used to house your savings, how to use them most appropriately and effectively, and the tax implications of doing so.

Access bonds

If you have an access bond, this facility is an excellent place to house any additional savings. An access bond allows you to make additional payments towards your home loan and then to draw from these funds as and when needed. In most instances, where you make surplus contributions to your home loan, the bank will use the money to reduce the capital amount which means you will effectively pay interest on a smaller amount, with the added benefit that you do not pay tax on the interest saved. Most home loans do not automatically come with an access bond facility, meaning you will need to apply to your bank to have this facility activated either when your bond is registered, or at any stage thereafter provided you have conducted your home loan account well.

Important to bear in mind is that an access bond does not allow you to borrow or withdraw all the money you have paid towards your bond. You can only access the funds that you have paid over and above your monthly bond repayment. Because of their flexibility and ease of access, access bonds are excellent vehicles for housing emergency cash while at the same time

reducing the interest payable on your home loan. Some people transfer their salaries into their access bond and leave only sufficient funds in their current accounts to cover their monthly deductions. If you are contributing towards a retirement annuity, you can use your access bond to 'park' any tax refunds received from Sars in respect of your tax-deductible RA contributions. Then, at the end of the tax year, you can use the funds in your access bond to maximise your tax-deductible RA contributions for the next tax year.

Fixed deposit account

Fixed deposits are savings accounts that are linked to a specific time period depending on your savings goals. Generally speaking, you are able to choose an investment period of 12 months, 24 months or 60 months, with the interest rate largely depending on your investment horizon. The applicable interest rate, which is generally higher than that of a savings account or notice deposit account, will be applied for the duration of the investment. Depending on the financial institution that you have chosen, you may elect to get paid your interest on a monthly basis or compound your interest at the end of the period, bearing in mind that interest earned is taxable. Once your money is locked away in a fixed deposit account, you are not able to access your capital before the end of the period without incurring penalties. In general, banks will insist on a minimum deposit amount of around R5 000 when setting up a fixed deposit account.

Money market accounts

Most banks or financial institutions operate money market accounts, which are effectively savings accounts with more favourable interest rates which are advertised upfront. Money market accounts are generally low-risk, highly liquid investments which allow account holders to easily and quickly access their cash. The only real risk that a money market account presents is the risk that your money is exposed to a single bank. Most financial institutions that offer money market accounts include online user functionality to allow account holders to easily transfer or withdraw funds, together with ATM, debit order and stop order capabilities.

Generally speaking, the interest earned on money market accounts is higher than that of savings accounts but lower than what is offered on fixed or notice deposit accounts, with most institutions offering tiered interest rates based on the balance in the account. The minimum deposit amount on money market accounts ranges from between R10 000 and R20 000 depending on the bank. In essence, money market accounts are similar to savings accounts in most respects but with more favourable interest rates if you need to leave your money parked in the short- to medium-term.

Money market fund

Unlike a money market account, a money market fund is an actively managed investment product that is generally invested in a range of instruments including promissory notes,

commercial papers and Negotiable Certificates of Deposit. Because the money held in a money market fund is diversified across numerous institutions, the investment risk is spread and not limited to a single bank as in the case of money market accounts. Asset managers of money market funds actively seek investment opportunities to provide higher returns for their investors which mean that investors can expect to generate better returns than if they were to leave their money in a money market account. However, unlike a money market account, cash held in a money market fund will fluctuate in line with market movements.

Money market funds generally require minimum deposits of around R20 000, and accessing the funds will take anywhere between one and five working days, depending on the institution. As such, money market funds are generally not ideal for emergency capital as you will likely not have instant access to your cash. Rather, these vehicles are more suitable for parking cash earmarked for medium-term goals such as paying a deposit on a home or an overseas trip or to park funds while you are making investment decisions.

Tax-free savings accounts

Tax-free savings accounts are tax-efficient savings vehicles that are more appropriate for longer-term savings goals. This is because all proceeds earned from TFSAs – including interest income, capital gains and dividends – are exempt from tax, meaning that you get your full investment return without being taxed on the growth you earn. Unlike retirement fund contributions, it is important to bear in mind that contributions towards a TFSA are not tax-deductible. TFSA investors are limited to investing a maximum of R36 000 per year, and a total lifetime contribution of R500 000, towards the fund. Where an investor does not use their annual contribution of R36 000 in a tax year, they will not be permitted to roll it over to the following year, and the contribution will therefore be forfeited.

Most TFSAs provide complete contribution flexibility, allowing investors to stop and start their contributions at will. Investors can choose to contribute monthly, quarterly, annually or on an *ad hoc* basis, although some providers insist on a minimum contribution level for administrative purposes. TFSAs can take the form of money market or fixed-term bank accounts, a unit trust investment or a JSE-listed exchange-traded fund. TFSAs can be issued by banks, long-term insurers, unit trust managers, mutual banks or cooperative banks. Before investing in a TFSA, it is important to understand the longer-term implications of doing so. **Full Report: *How to choose the most appropriate savings vehicle for your needs - Moneyweb***

Moneyweb | 5 July 2021

June 2021 economic update

On June 11, the FTSE 100 in the UK closed at its highest level since February 2020, but it all came crashing down with the update from the Fed.

What a month it's been!

- On 29 June 2021, the Constitutional Court made history by finding former president Jacob Zuma guilty of being in contempt of court and sentencing him to 15 months' imprisonment. Not house arrest at Nkandla, not a suspended sentence, not a fine. He has three days left to hand himself over at a police station in either Nkandla or Johannesburg, whereafter he will start to serve his term. While this is not economic news, we thought it was well worth the mention.
- Over in the US, there seems to be a continued disconnect between employers and job seekers. Payroll numbers are still down by approximately 7 million compared to February 2020 and yet both services and manufacturing companies are claiming a severe shortage of employees to fill roughly 9 million open positions in these sectors. Some commentators speculate that this may be due to the fact that stimulus cheques received by lower-income bracket employees were actually more than their normal salaries would be if they had to re-enter the formal job market. This is a scenario that will turn abruptly when the Covid stimulus dust settles and there is no more "free money" available. We expect that when this happens, the "transitory" inflation we keep hearing about may reverse rather quickly and that the effect on global markets could be quite sharp.
- During the month, the Federal Reserve (the US Reserve Bank) rocked the boat simply by *mentioning* possible interest rate hikes around 2023. This caused a big dip in most global markets in the middle of the month, but US markets quickly bucked the trend to forge ahead towards the end of the month.
- On June 11, the FTSE 100 in the UK closed at its highest level since February 2020, but it all came crashing down with the update from the Fed. Unlike the US, it didn't enjoy the strong recovery, with some Brexit niggles still impeding trade with the EU, its biggest trade partner.
- There are however some positives coming out of the UK, with an estimated 63% of the workforce back at their normal place of work and a 47% increase in restaurant visitors as the lockdown in the country continues to ease.
- CNBC reports that business activity in the Eurozone accelerated by the fastest rate in 15 years. A systematic loosening of Covid restrictions across the various countries in the Eurozone has seen GDP growth forecasts improve to 4.6% with Germany and France leading the pack.
- Even so, the wins in economic activity have not translated into another month of stock market growth with the Eurostoxx 50 index ending the month relatively flat.

- Our local stock exchange was not sure how to deal with the announcement from the Federal Reserve with a wide range of returns from the various underlying sectors and an overall loss for the month on the Allshare Index. Even so, it is still up a decent 11.5% year to date.
- Never to be left out of the limelight, the crypto industry in South Africa was dealt another blow with yet another enormous scam making the news. With media reports ranging from $3.6 billion down to R71 million worth of Africrypt investors' funds lost, we find it hard to imagine who would be the investors handing over these millions of rands or dollars to an unknown company making promises of outrageous returns.
- The rand took a breather from the one-way move experienced over the last several months, ending June at R14.30. While this may be around 4% weaker than at the end of May, it is still just over 5.5% stronger than it was at the end of January.
- One month index movements:
    - JSE All Share Index: -2.52%
    - S&P 500 (US): 2.25%
    - FTSE (UK): 0.21%

Moneyweb | 1 July 2021

Switchboard: 011 450 1670 / 081 445 8722
Fax: 011 450 1579
Email: reception@irfa.org.za
Website: www.irf.org.za

3 Williams Road
Bedfordview
Johannesburg
South Africa
2008

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